

**BOARD OF INVESTMENT TRUSTEES
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION

March 3, 2006
101 Monroe Street, 15th floor
Rockville, Maryland

Board Members Present: Tim Firestine, Chair
 Gino Renne
 Sandra Kaiser
 Mark Barnard
 Art Spengler
 Walter Bader
 Steve Farber
 Cora Ingram
 Kelda Simpson
 Joe Adler
 Beverley Swaim-Staley
 Jeff Buddle

Staff: Linda Herman
 Joanne Tsai

Others Present: Mark Brubaker, Wilshire Associates
 Mike Dudkowski, Wilshire Associates
 Amy Moskowitz, General Counsel to the Board

CALL TO ORDER

Mr. Firestine called the open session of the Board to order at 9:40 a.m.

APPROVAL OF MINUTES

The Board requested one amendment to the minutes and unanimously approved the amended minutes of the December 2, 2005 open session.

INVESTMENT COMMITTEE REPORT

Mr. Barnard presented to the Board the report on the Investment Committee meeting and the items recommended for Board action.

Investment Consultant Recommendation: Ms. Herman presented Staff's analysis of the five responses received for investment consulting services. She discussed the comparisons of the firms in the areas of: core services, business considerations, organization and staffing, fees and other issues. The Board discussed the strengths and concerns outlined in the presentation

material for each firm. After discussion, the Board unanimously approved the following resolution:

0603-02 *Resolved, That the Board approves hiring Wilshire Associates to provide investment consulting services to the Board for the three retirement plans and authorizes staff to negotiate contract terms.*

Passive vs. Active Indexing: Ms. Herman discussed follow-up from the Board's retreat on passive versus active indexing of domestic equities. Mr. Brubaker presented Wilshire's analysis of the optimal mix of passive versus active domestic equities based on the expected excess return and risk of the Fund's current managers. The Board approved the following resolution:

0603-03 *Resolved, That the Board approves the reallocation of funds among domestic equity managers as presented.*

RSP – Self Directed Brokerage Window: Mr. Firestine updated the Board on the County Attorney's comments on the Board's authority to establish a self directed brokerage window as one of the investment options offered to RSP participants and distributed the Fidelity's retail brokerage agreement and other information which would be distributed to participants. Staff recommends investment transactions through the window be limited to the purchase/sale of mutual funds. After discussion, the Board approved the following resolution:

0603-04 *Resolved, That the Board approves adding an investment option for a self directed brokerage window to the Retirement Savings Plan. The self directed brokerage window will be limited to the purchase/sale of mutual funds.*

Fund Performance Review and Investment Outlook: Ms. Herman updated the Board on the Fund's performance through February and highlighted current market issues and concerns. Mr. Brubaker discussed highlights of the financial markets during the last quarter and noted the ERS' total fund performance for the one year ended December 31 ranked in the 40th percentile of Wilshire's public fund universe. He noted the three year performance ranks at the 14th percentile or better than 86% of peers. The Board reviewed the performance results and recent updates for the funds offered in the Retirement Savings Plan and Deferred Compensation Plan.

The Board discussed the question raised at the Board's annual retreat on what the return and asset allocation would have to be for the ERS to obtain a fully-funded status within five years. The Board reviewed the actuarial projections of assets, liabilities and contributions provided by Mercer and the return expectations and simulations provided by Wilshire.

ADMINISTRATIVE COMMITTEE REPORT

Ms. Kaiser presented to the Board the report of Administrative Committee activities and items recommended for Board action.

Amended Bylaws: Ms. Kaiser noted that the amended Bylaws, approved by the Board in December 2005, which included changes due to the increase in the number of Board members,

administrative changes, and clarification of the role of the committees, requires the approval of the Board. The Board approved the following resolution:

603-05 *Resolved, That the Board approves the amended Bylaws.*

RSP - Distribution Installment Options: Ms. Kaiser discussed the proposed amendment to the County Code to add an installment distribution option for RSP participants. The Board discussed the recommendation and the timing of the transmittal to the County Council. After discussion, the Board approved the following resolution:

0603-06 *Resolved, That the Board requests an amendment to the County Code providing for an installment distribution option for employees who participate in the Retirement Savings Plan.*

RFP – Outside Legal Services: Ms. Kaiser discussed the memorandum of understanding which permits the Board to request the County Attorney’s Office to issue a Request for Proposal for outside legal counsel. The Board discussed the procurement process and the process for selecting the firms who will receive the RFP. After discussion, the Board requested staff add two additional firms to the list of candidates. The Board approved the following resolution:

0603-07 *Resolved, That the Board approves issuance of a Request for Proposal by the County Attorney’s Office for outside legal counsel for fiduciary and investment matters.*

Resolution – ERS Budget Allocation: Ms. Kaiser presented a resolution to approve an allocation adjustment for the ERS budget of \$16,000 from office management and due diligence to professional services to cover the cost of outside legal counsel review of the contracts with AEW Partners and TA Associates. After discussion, the Board approved the following resolution:

0603-08 *Resolved, That the Board approves an allocation adjustment from due diligence (\$10,000) and office management (\$6,000) to outside legal services (\$16,000), with no increase in the Employees’ Retirement System’s FY 06 budget previously approved by the Board, to be used to pay for the services of outside legal counsel in reviewing the partnership agreements with TA Associates and AEW Partners.*

Mark Barnard & Art Spengler: Mr. Firestine presented plaques to Mark Barnard and Art Spengler thanking them for their outstanding and dedicated service to the Board in meeting its fiduciary responsibilities to employees, beneficiaries, and retirees.

Appointment – Investment Committee Chair: Mr. Firestine noted due to the Mr. Barnard’s term expiring, the Chair of the Investment Committee is vacant. Mr. Firestine recommended the Board consider Ms. Simpson to fill the vacancy. The Board unanimously approved the following resolution:

0603-09 *Resolved, That the Board selects Ms. Simpson as chair of the Investment Committee.*

The Board discussed items on the workplan recommending no changes.

There being no further business of the Board, the open meeting session was adjourned at 11:45 p.m.

Respectfully submitted,

Gino Renne, Secretary